

Press release

News from the International Capital Market Association (ICMA)

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ICMA publishes two studies which highlight the effect of regulation on capital market activity.

(London, UK) The International Capital Market Association (ICMA), the trade body for participants in the cross border debt capital markets, has today published two separate studies which highlight the continuing cumulative effect of regulation on the ability of financial markets to support economic growth.

[28th ICMA European Repo Council European repo market survey](#)

This survey of the amount of repo business outstanding on 10 December 2014 sets the baseline figure for market size at **€5,500 billion**, (€5.5 trillion) representing a decline from the figure of €5,782 billion recorded in the last survey in June 2014. Using a constant sample of banks who have participated in the survey over the long term, it is estimated that that the market has shrunk by at least 4.8% since June and by 2.8% since December 2013.

Key findings of the repo survey

- Interviews with participants in the survey indicate that the continuing reduction in repo activity reflects depressed business and that new leverage and liquidity regulations aimed at reducing the reliance of banks on wholesale short term funding are beginning to bite. Market participants cite the Leverage Ratio as a major constraint on balance sheets and addition to the cost of business.
- The impact of regulation appears to be greatest on commoditized, short-term, interdealer repos of government bonds, where margins are thinnest and where banks are least able to recover transactions costs (including increased regulatory capital). This type of repo is principally traded across electronic platforms and these have suffered an absolute and relative decline in activity.
- CCPs offer multilateral netting and a lower regulatory counterparty risk weight, which can help to reduce the burden of new regulation, consequently anonymous (ie CCP-cleared) electronic trading continues to be robust, maintaining its share of the market and increasing its share of electronic trading. Central clearing has been a top priority for major banks.
- The average maturity of business lengthened, reflecting in part seasonal longer-term financing to bridge the end of the year but possibly regulatory pressure to seek more stable (ie longer term) liabilities.

- There are various indications of increasing collateral transformation as banks swap collateral to acquire the high-quality liquid assets (HQLA) required by new regulations.

ICMA Impact Study for CSDR Mandatory Buy-ins

This study also released by ICMA today, highlights a further major challenge to capital market activity (including repo) posed by the mandatory buy-in provision of the Central Securities Depository Regulation (CSDR).

A buy-in may occur in the case of a failure to deliver the securities that were agreed on a trade between two counterparties, the disappointed buyer has the right to appoint an agent to purchase the securities at market price for guaranteed delivery at the price originally agreed and to charge the seller the difference. Buy-ins under the current discretionary regime in fixed income markets are infrequent. The move to a regime where buy-ins are actively enforced introduces additional difficulties and cost into doing business.

Key findings of the impact study

- If and when, mandatory buy-in regulation is implemented (scheduled for early 2016), liquidity across secondary European bond and financing markets will reduce significantly, while bid-offer spreads will widen dramatically.
- The European repo market will also be radically re-shaped, driving more reliance on very short-dated repo funding ('exempt' repo).
- The more stable, fixed-term markets will see dramatic widening of spreads for more liquid securities, and a total withdrawal of liquidity for less liquid securities, including some sovereign and public bonds, and most corporate bonds.

Commenting on the two studies, Godfried De Vidts, Chairman of ICMA's European Repo Council, said "Today we face many challenges which are rocking the repo market on its strong foundations and endangering its ability to provide secured finance in the service of Europe's real economy. The cumulative impact of market legislation and prudential regulation is putting the safety and function of the repo market and other products at risk."

"The ICMA ERC has responded constructively to many relevant consultations, not least on the CSDR last week, where the ill-conceived imposition of mandatory buy-in adds a further threat to the functioning of financial markets, at the same time that the ECB is introducing QE. We welcome the CMU initiative which will seek to address inconsistencies existing in recent regulatory reforms and ICMA will continue to engage with policymakers to reinforce their understanding of the critical role that repo plays in financial markets and that fluidity is not further impaired."

"European citizens significantly benefit from a well functioning repo market and can ill afford any erosion in its efficiency."

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Notes for editors

1. ICMA ERC European repo market survey

In December 2014, the European Repo Council (ERC) of the International Capital Market Association (ICMA) conducted the 28th in its series of semi-annual surveys of the repo market in Europe. The latest survey asked a sample of financial institutions in Europe for the value of their repo contracts that were still outstanding at close of business on December 10, 2014. Replies were received from 67 offices of 63 financial groups, mainly banks. Returns were also made directly by the principal automatic repo trading systems (ATS) and tri-party repo agents in Europe, and by the London-based Wholesale Market Brokers' Association (WMBA).

A copy of the 28th ICMA ERC European Repo Survey and previous surveys can be downloaded from ICMA's website at: www.icmagroup.org

2. CSDR and Mandatory buy-ins

A buy-in is a market based remedy available to the receiving counterparty of securities (the buyer) in a financial transaction in the eventuality that the delivering counterparty (the seller) not delivering the underlying securities on the agreed settlement date (i.e. failing). In the event of a fail, the disappointed receiving counterparty has the right to instruct a third party (the buy-in agent), who is independent from both counterparties in the original transaction, to purchase the securities in the market place for guaranteed delivery (normally for a premium to non-guaranteed delivery) which will then be delivered to the disappointed counterparty at the resulting buy-in price.

Currently buy-ins are exercised on a discretionary basis, under ICMA's buy-in rules or the rules and procedures of various central securities depositories (CSDs) and central counterparties (CCPs), while in the repo market the Global Master Repurchase Agreement provides for remedies in the event of a failing repo. Buy-ins are relatively infrequent in the European fixed income markets. The new CSD Regulation, states that any participant in a securities settlement system that does not deliver the financial instruments to the receiving participant "shall be subject to a mandatory buy-in procedure" and also suggests that buy-in procedures can be managed by a CSD, a trading venue, or a CCP.

3. International Capital Market Association (ICMA) and European Repo Council

ICMA represents financial institutions active in the international capital market and has members located in 55 countries. ICMA's market conventions and standards have been the pillars of the international debt market for almost 50 years, providing the framework of rules governing market practice which facilitate the orderly functioning of the market. ICMA actively promotes the efficiency and cost effectiveness of the capital markets by bringing together market participants including regulatory authorities and governments.

The ICMA European Repo Council is a special interest group established under the auspices of ICMA to represent the major banks active in Europe's cross-border repo markets.